

I. MARKETING CONDITIONSBusiness and Marketing Conditions

Players 25's - The total family continues to decline throughout the Section. Special couponing is under way in all value brand markets in an effort to regain lost business. Overall Players 25's are down 45.9% year to date. We feel we will regain some sales momentum through inventory buildup in select accounts and couponing.

Cambridge Full Flavor - All presentations are now complete in both direct and non-direct accounts. The Colonial Division of 7/Eleven with 533 stores rejected both packings on our first contact. An appointment has been secured to represent Cambridge Full Flavor. We feel sure the products will be accepted now that their distribution center has the items available. Kroger, Salem, Va., with 2 distribution centers are pending at this time. We are confident they will also accept both packings. Product sell-in at retail is averaging 12 cartons per call.

Cambridge - Total Cambridge is up 67.9% for the first 6 months of 1987. Distribution and inventory continues to improve through special programs, concentrated in high Generic Markets. Couponing continues to be the primary motivator to move this product.

Marlboro Menthol Test Market- Distribution remains at around 98% in all areas of the Test Market. The 2 with wallet, and 5 for 3 displays were not as successful as we had anticipated. We have, however, altered the retail promotions reducing the amount of product to be purchased, which has helped movement. Division Managers report retailers are continuing to redeem coupons given out during the sampler's activities. The most surprising element in the test area is the movement of reformulated Marlboro Menthol. This, and consumer comments, have been very positive. The introduction of Marlboro Lights 100's Menthol will give the original test brands new awareness.

The sell-in of Marlboro Lights 100's Menthol is underway. Appointments with all major direct and non direct accounts in the Test Area were scheduled for the week of July 20, 1987. Accepting to date are 9 non direct accounts which included a display program. All Headquarter Accounts have also accepted the product.

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PM SALES PERFORMANCE

Total Section Sales are down -9.3%. All major packings except Marlboro Lights 85's, Marlboro Menthol and Cambridge are in the red. One major account that has very significantly affected our sales' performance through June 1987 is Southland Distribution Center. They normally contribute upwards of 37% of Section's total business. Through 6 months in 1987, their contribution is 26%. In reviewing their buying habits, purchases are predicated on anticipated price increases and special promotional buy-in's. For example: May and June 1987 purchases, anticipating a price increase, were 559.7 M cigarettes; July 1987, 684 M. All purchases in the preceding months, back to December 1986 were normal maintenance orders. During December 1986 they purchased 999 M. Lost business in 1987 is 4.6 M units per month. The solution to these inconsistent purchases might possibly be a computer to computer hookup for ordering. Debt reduction and reorganization of Southland has impacted buying habits and will continue to do so for the remainder of the year.

Laws and Legislation

U.S. Congressman Rick Boucher met with Virginia and Tennessee farmers during June and reviewed Federal Support Program. He also complimented Philip Morris on their commitment to purchase domestic tobacco.

The City of Suffolk, Va. is proposing a potential increase of .02¢ per pack on cigarettes. The City of Hampton, Va. will also look at the increase of .02¢ during 1988, bringing the tax to .15¢ per pack.

The West Virginia delegation met with Senators J. Rockefeller and R. Byrd on July 8, 1987. The results were very positive. Both Senators indicated a concern over the economic impact a Federal Excise Tax increase would have on the State. All appropriate reports have been processed to Amy Sheridan, NYO.

The City of Salem, Va. has banned use of all tobacco products on school property during school hours or school functions.

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II. MAJOR COMPETITIVE DEVELOPMENTSAMERICAN TOBACCO

The introduction of Malibu continues at retail, with a variety of payments for product inventory build-up and display. Payment on competitive value centers at \$18.00 for 3 rows vs the normal \$3.00 payment on standard fixtures. 30 carton temporary bins are being placed with an \$8.00 payment; 120 carton permanent floor displays with a \$36.00 monthly payment. All product features a \$3.00 coupon. Pack sales are featured at 30¢ less than branded products. Most switch sales activity is geared toward the Marlboro smoker. The theme, "Come to Malibu" is being used. Initial sales were quite good. Repeat orders are somewhat slow.

BROWN & WILLIAMSON

Retail personnel attended a meeting the week of July 13, 1987 in preparation for the introduction of Capri on August 1. Other retail promotions remain in support of all products, with a variety of couponing. For example: \$1.00 on Falcon; \$2.00 on the Kool, Richlands and Barclay families. Emphasis continues to be placed on merchandising Falcon and GPC on Value Centers.

LIGGETT & MYERS

Couponing is being maintained on all major packings at \$1.00, \$1.50 or \$2.00. With a carton purchase of any Liggett Full Margin product, the consumer receives a free flatware place setting.

They are currently testing a counter spinner unit for Generic products only. There are a few on location at this time, payment unknown.

P. LORILLARD

Emphasis continues to be placed on couponing all products at \$1.00/2.00. The package change for True does not appear to have created any new business. Inventory levels are now being adjusted downward to reduce potential old stock. In areas of the Section where their market share is low, they are reducing contracted rows to 16.

RJR NABISCO

The price increase allocations of 150 % insured product inventory/availability at all levels. The follow-up of

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retail activities on couponing all products at \$2.00 off forces pipeline movement. Thus eliminating excess buy-in inventory, allowing for resumption of normal purchases.

Retail activity includes a bond promotion for Winston and Salem. A payment of \$60.00 (25¢ per carton) for 240 cartons and display is made to retail accounts. The consumer offer is: Purchase 8 cartons of Winston or Salem and receive a \$50.00 savings bond via mail; or 5 carton purchase along with a \$10.00 check receive a \$50.00 bond.

Reynolds is maintaining emphasis on Flex Carton Fixture placement, resulting in lost opportunities to Philip Morris. Success is being enhanced through timely placement of any size fixture.

Couponing on Doral has been reduced greatly throughout the Section. Where couponing does exist at wholesale level, it appears payment is made as coupons are placed on product. This eliminates redemption procedures and financial investment by retailers. There have been no further reports of additional use of the 50¢ off sticker as reported in the Section Update on July 9, 1987.

GENERICIS

The traditional black and white Generic packings have significantly decreased in sales as branded Generics continue to flow. Additional branded products continue to be introduced by all manufactures. For example: Rainbow (Fleming Foods, Waynesboro, Va.).

III. TRADE CLASSES

Tobacco Distributors

The Capital Mountain facility in Salem, Va. effective July 15, 1987 will discontinue being a Direct Customer. All purchases will be processed through Capital Whitehead, Ashland, Va. The Salem Warehouse will temporarily be used as a point of redistribution for retail orders in the Salem/Roanoke Market Area.

Schulick Taylor Co. of Wheeling, WV. has been purchased by Ohio Valley Drug Co., effective July 1, 1987. The new owners goal is to supply cigarettes to their 500+ independent pharmacies in a five state area.

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Wholesale Grocery

Participation by Philip Morris in trade shows was accomplished with three (3) accounts since my last report - Virginia Wholesale, Bristol, Va., Quality Foods, Lynchburg, Va., and Ohio Valley Drug Co., Wheeling, WV. Through participation in these shows we achieved pre-booking of new products and commitments for a variety of P.M. fixturing and Permanent Point of Sale.

We continue to improve the elimination in out of stock situations with targeted high volume accounts.

Vending

Area Manager M. Griffin reports that a leverage buy-out of Service America is being completed by a group of four businessmen, headed by Carr Newcomer. The reported price is 500 million dollars. No change in the daily operation procedures is expected at this time.

Supermarkets

Super Fresh of Richmond is still rumored to be closing out their warehouse on August 1, 1987. If this occurs, they reportedly will purchase all merchandise from Richmond Foods.

Farm Fresh of Norfolk, Va. has made a tentative proposal to Safeway for the purchase of the closed facility in Chester, Va. If agreement is solidified, a Management Group from Richfood Foods will operate the facility for a minimum of six months. Farm Fresh Warehouses in the Tidewater Area will be consolidated into one operation.

Acme Supermarkets of Tazewell, Va. are reportedly for sale. If this should occur, this will severely damage the cigarette business of Sarver Candy, Bluefield, WV. The cigarette business would be lost to Section 42 where the rumored buyer is headquartered.

Convenience

The most active convenience group at this time is American Personnel. They recently announced that 11 stores would open in the Va. Beach area; 3 in Atlanta, Ga. and 1 in Lexington, Ky. This would bring their total stores to 60; up from 19 two years ago.

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Convenience groups continue to be receptive to special promotions and, in fact, welcome new ideas for increasing business through increased traffic.

One new account, Fast Break, with 5 stores is now being established.

Drugs

Rite Aid Drug has purchased all Virginia Drug Fair stores effective July 31, 1987. Local District Offices for National Drug chains have expressed interest in cigarette promotions that are frequently refused by headquarters. We continue to communicate local interest to the appropriate P.M. Headquarter areas.

Mass Merchandiser

SAM's, a Division of Walmart is expanding operations throughout Section 24. Projected new openings are in the Bristol and Roanoke, Va. areas, as well as a rumored buy-out of the Super Saver Warehouse in Cross Lanes, WV.

Heck's stores continues to have financial problems as both sales and number of stores decline.

Service Stations

Super America is converting Kiosks locations to full convenience stores to become competitive with other major convenience operations.

Return Goods

SAM M. Saunders is working on correcting the returned goods problem encountered in one house in N.C. owned by Old Dominion Tobacco of Va. Beach. This should not be a problem since Robin Ray, the owner, is a friend of Philip Morris.

June of 1987 vs June 1986 we experienced a 16% increase in returned goods. We continue to stress salvage with all personnel in an attempt to decrease in-house returns.

IV. SSM KEY ACCOUNT CONTACTS

Due to Section Meetings, vacation time and final relocation move, only minimal key account contact make.

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On Monday, July 20, 1987, I met with Southland Corp. Manager Bill Sharader and Colonial Division Buyer Ron Madison. We took them to lunch and discussed the state of Southland's overall business. Attending were, Myself, NAM Mike Pfile and SAM Mike Saunders. Because Southland is in the process of restructuring their organization and reducing their dept., it is felt we will continue to see a decline in cigarette purchasing through out the remainder of this year. Once the reorganization is complete, we should expect to see an increase in acceptance of our brands and programs, as well as a willingness to develop special programs with Southland and ourselves.

V. MERCHANDISING PROGRAMS

Plan A- There have been no significant changes in total Plan A status since my May Report. We have identified potential new Plan A accounts as well as row upgrades for all existing Plan A stores as appropriate. Marginal volume accounts have also been identified for row upgrades for Plan AL. Overall, new Plan A rows of existing contracts should net a gain of 20,000 additional rows. We would like to see overall 24,000 additional rows contracted, including new signing.

Plan A/M - Initial projections for this new merchandising contracts should result in 250 stores signed. Emphasis will be placed in convenience type outlets currently with non self service carton merchandising.

All current and potential Plan A, AL and AM accounts are being set up in the system to monitor progress and provide recaps as needed up the line.

Plan A-1 - Six chain accounts representing 85 stores have accepted the Marlboro sports bag to date. Overall utilization of floor bins should result in 100 percent due to new guidelines with no A-1 contract necessary to place display.

Plan AV/AG- The new revised schedule is in the field and currently being implemented. We have reemphasized with all personnel the importance of adequate fixturing for Generic and Value cigarettes. Additional fixturing is on order to meet our current and projected needs. During June the Section placed 21 additional fixtures. Total contracted locations are now 713. This represents 35 percent penetration in predominately carton outlets.

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Plan B/M- The Section currently has 2,633 overall contracted stores, up by 25 since May 1987. This represents 61 percent of accounts with predominately pack sales. Fifty three percent are signed to prime position. Fifty eight percent feature add-on units. The Plan B/M counter display program continues to be a strong merchandising area for the Section.

Plan R- No major changes to report this period.

PM Racks

Carton Racks - Fixtures were placed in 9 additional stores during June. Section's current penetration in Plan A stores 300+ CPW volume with P.M carton fixtures is 16%. We currently need CMSII fixtures for 10 additional stores, predominately 4' SD, a total of 15 units. Qualifying accounts are currently being contacted on behalf of System 2000.

Package Racks- Twenty one units were added during June, of which, 15 were overhead units. Five additional overhead units have been sold for placement. The back orders on 6' units continue to cost our Section good placement. P.M. package fixtures are now in 13 percent of total accounts in the Section.

Vending Programs- Three small vendors were signed to maxi credit coin vend during June. Service America of Roanoke, Va. has agreed to test 35 maxi coin channels. The units are on order.

VI. SECTION ACTIVITIES

Section continues to place emphasis on improving inventory and distribution for all major packings. Cambridge and Players are receiving added attention through improvement in PM Value Merchandisers and special couponing efforts in higher volume account.

All personnel in the Section have been motivated with the new Plan A Series contracts. We anticipate a high degree of improvement in inventory situations with this new program. We also anticipate several new signs using the new contracts and area of choice.

The Cambridge "Heavy Up" Menthol Program has been completed with all special merchandise pulled through to retail. The

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on carton coupon has enhanced product movement and distribution.

Productive time for June was 91%, with 4% attributed to vacations.

Call average was 10.9 with a max of 11.9. Consumer Intercept Coupon usage average 6.7 per day. This is an improvement of 1.2 coupons per day.

Section cycling for June was 73%, with 36 of 49 territories cycling. There were 42 territories or 86% cycling 90% or above.

Sampling Programs - All Marlboro Summer Samplers (4) are currently on board. One Benson & Hedges Inter City Sampler is working in the Richmond, Va. Market. All DM's report good performance by the Samplers in improving product awareness through presentation and trail.

Resort Programs - All plans have been finalized for the Va Beach Resort Program. DM T. Richards has done an excellent job in working out the details for effective implementation.

Special Events

Chincoteague Volunteer Fireman's Carnival - All arrangements have been completed. Additional materials have been furnished by the Marlboro Brand Group in NYO. We have maintained exclusive sampling and product distribution/sales on the carnival grounds.

Quality Foods 5th Annual Show and Sell - This was Section's first participation in this trade show. SSS T. Lynn, AM M. Griffin, and S/R P. Nicely were in attendance. This proved to be a successful initial participation. It is recommended that our participation be continued and special programs be developed for their catalogue.

Sixty Seventh WVA and Southern Zone Trap Shooting Championship - Marlboro twill caps were provided for all trap officials/scorers for both events. Philip Morris was recognized in the WV Championship Program for it's donation.

Ohio Valley/Clarksburg Drug Co. Trade Show - Area Manager L. Takacs attended this trade show on June 27,28, 1987 in Morgantown, WV. Reception by the initial sponsor, Schulick Taylor Co., and their new owner, Ohio Valley Drug, gained

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high praise for Philip Morris. We are the first tobacco manufacturer to be represented at their annual show. Initial results have netted us numerous merchandising inquiries and excellent rapport with this trade class.

VII. MPA ACTIVITIES

POS Facilities - Arranged for all point of sale material in Richmond to be moved to the new Combination Warehouse. The carpenter had not completed the fencing and securing of our area, but move was initiated due to the scheduling of trucks and manpower. The preliminary arrangements were completed for the Norfolk, Va. combination warehouse. The Roanoke, Va. combination warehouse was inspected and advice given to the R/M on how to arrange order and stock material. The Roanoke warehouse was found to be maintained in an orderly manner.

Conventions- Attended the Virginia Wholesale and Distribution's Convention in Williamsburg. Contacted several key account personnel.

Plan A - Attended the new Plan A Management Meeting in Richmond and Roanoke, Virginia.

Marlboro Menthol - Attended the Marlboro Menthol Lights 100's Introductory Meeting in Roanoke, Va. along with other Section Management.

Administrative - The balance of the time spent in the Section Office attending to administrative responsibilities.

VIII. SALES SERVICES

Fleet- Semi Annual Car Condition Reports have been processed for all assigned to Section 24. New York communication on potential interior rack failure has been forwarded to the field for follow up as applicable.

We continue to work with the Fleet Department to resolve problems with alarm systems on our mini vans.

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Carlstadt Warehouse - The problem in coupon shipments, mentioned in Section's last report, has been resolved with the assistance of John Woods in our New York Office. We are still in need of 6' OPM's and BV displays. We have obtained 100 of the still needed 700 units from other Sections.

Section Office - The need for a third full time office employee continues to be a necessity. Increased communication, program implementation, request and special reports have created a need for continual outside temporary workers. These workers are not familiar with Philip Morris procedures and cannot handle special in house activities. Through the transition of numerous temporary personnel, current office staff must continually direct their activities, affecting their own productivity.

IX. SALES DEVELOPMENT

Nothing major to report.

X. MEDIA DEVELOPMENTS

Nothing to report.

XI. ASSOCIATIONS AND CONVENTIONS

Va Wholesalers Association Convention - This continues to be an excellent convention for improving Philip Morris' customer relations. Most of Sections major tobacco distributors are regular participants. In the past two years, we have entertained the current President and President Elect on Friday evening. We would like to see this entertainment established and recognized as a Philip Morris function. In addition, we recommend that Philip Morris' major contribution to the convention be in the form of a Golf Tournament Sponsorship with the difference in cost going toward entertainment on Saturday evening.

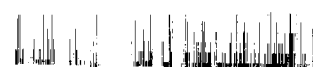
XII. SSM MISCELLANEOUS COMMENTS

The SSM/MPA Space Command Workshop was very informative. Through the use of our new systems capabilities we should be

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able to prepare and develop very professional presentations for our accounts. Once the SAM's have the knowledge of the system, they will be able to prepare, or have prepared by the MPA's, all materials necessary to make professional reviews and sales presentations.

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I. MARKETING CONDITIONS

CAMBRIDGE LIGHTS FULL FLAVOR - 24½ million units were shipped during the introductory period - nearly 3 times original allocation. Direct accounts still pending are Malone & Hyde, Affiliated Foods, and Begley Drug. Product has been refused by Ziegler and Garfield - Distributors who service vendors exclusively. Non-direct chains still pending are Big Bear, Harts and Meijer - this is due to limited buyer availability.

SR prebooking effort accounted for 64,859 cartons shipped to retail. In Ohio, anticipation of 7-15 tax increase and resulting floor tax caused some retailers to postpone delivery until after the 15th. However, as total accomplishment indicates SR's handled this objection effectively. Initial retail distribution by the end of July should range from 80-85%. Response to this introduction at all levels has been very favorable despite some stated objection to the yellow "Generic Price" snipe which appears on the carton.

Outside temporary help has been used in major distributors for couponing product. This has helped greatly in our effort to coupon all self service product and as a positive side effect has given SR's more time for other in-store mission activities. Despite some problems with coupon availability, we are assured that supply will now be continuous and hope to continue use of this resource.

Cambridge Family - Distribution continues to show slow, steady increases. Forced distribution to Kroger - Columbus stores will be complete before the end of July. Menthol heavy up was well received at all levels and proved an excellent vehicle for stimulating trial. Though shipments received did not in all cases conform to the original list - all promotional product received has been used.

PLAYERS LIGHTS 25'S - Slight decline in distribution is noted as sales remain slow - best movement is noted high volume/high population areas.

PM Blues - Distribution remains constant though post - promotional sales have slowed in one territory involved - this territory is predominately white, predominately rural and not a true indicator of the target market.

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PHILIP MORRIS SALES - Up 3.9% ytd at the end of June, extra units were generated by price increase as well as Cambridge Full Flavor introduction and pre-book effort. Significant contributors to unit growth ytd are Marlboro Red and Lights packings, Merit Ultra Lights, and as previously mentioned Cambridge. Some concern over impending floor tax in Ohio (July 15th) for wholesale and retail inventories has had some impact on July purchases - but, in most cases, it appears that inventories remained fairly high.

INDUSTRY SALES - Large number of promotional offers have left retail counter space at a premium - while permanent counter displays are given priority - remaining space is devoted to high SOM promos - 2 for 1 offers and incentive promotions must be on brands with high potential or with proven track records as retailers are increasingly more selective. Heavy on - carton couponing continues.

II. MAJOR COMPETITIVE DEVELOPMENTS

AMERICAN

- . Sales Force effort devoted exclusively to Malibu and Lucky Filter. \$3 off carton coupon and continued 2 for 1 pack offers has resulted in good distribution. Large quantities of white plastic (parsons style) value centers are appearing at retail. Sales are slow, however, and most wholesalers report they haven't received many re-orders.

BROWN & WILLIAMSON

- . Barclay Promo. features \$2 off checkout coupon with 3 additional \$2 off coupons for future purchases. 20¢ off pack purchase.
- . 60 ctn. dump bins feature \$2 off coupons for Kool, Raleigh, and Viceroy. Retailers receive \$24 per month.
- . Other 2 for 1 pack unit features Kool Milds.
- . Falcon featured in 30 ctn/40 pack floor bin with \$1.00 off coupons.

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- . In house couponing is occurring at Ohio Valley, Portsmouth and Peerless Candy, Columbus.
- . Car stock for Eastern Ky. Reps is limited to G.P.C., Falcon, and Kools. 13 calls per day is mandatory.

LIGGETT

- . L & M 30's Light 100's are being presented to direct customers in Ohio, Kentucky, N. Carolina, S. Carolina, Georgia, and Indiana. Base price is \$25.77 perm though composite prices will be used based on state tax differential. Packed 10 per carton. Introductory offer is \$12 per 12 M case on allocation from 7-15 to 8-31-87 (off invoice). A concurrent RDA offers an additional \$12 per case shipped to retail during this same period (count re-count). \$4 per 12 M case stamping allowance will also be deducted from invoice. Extended 30 day terms.
- . Bosart forcshipping 10 cartons Eve 2 for 1 product to 418 EMRO Eastern division stores.

LORILLARD

- . \$2 off couponing continues on all products
- . Sales Force effort focused on Newport as primary brand - promo features deck of cards with one pack purchase.

R.J. REYNOLDS

- . \$1 off Doral couponing continues as does the improper use of coupons (unattached) for other purposes.
- . Vantage 2 for 1 pack promo. is supported by magazine ads with toll free number for free pack.
- . 90/120/180 carton displays are being placed with \$2 off coupons on Winston and Salem Products. Reps are paying 25¢ per carton pre-booked and displayed - 15¢ for product not displayed.

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- . Pack Promos feature 2 for 1 with Winston and Salem Lt. Packings.
- . Reps also pre-booking Winston Light Box for August introduction.

Other Generics/Price Value

- . Kroger cost cutter featuring \$1 off coupons and 25¢ off on packs.

III. TRADE CLASSES

WHOLESALE DISTRIBUTORS

- . Gummer Wholesale - Newark is reportedly looking for additional location in Cincinnati.

WHOLESALE GROCERS- Nothing to report.

MILITARY - Nothing to report.

SUPERMARKETS

- . Tentative opening date for 2 new Cub Food Stores in Dayton, Oh is September.
- . Bigg's 2nd location is now under construction at I 275 & Greenhills-Forest Park in Cincinnati.
- . Kroger V.P. purchasing David Swartz has left to accept presidency of a drug chain in Michigan.

CONVENIENCE STORES - Nothing to report.

CONVENIENCE/WITH GAS

- . EMRO - Eastern buyer, Pam Dobrezenicki has left for maternity leave - she will be temporarily replaced by Bob Boop, N.W. Zone Manager.

GAS STATIONS - Nothing to report.

DRUG - Nothing to report.

MASS MERCHANDISERS- Nothing to report.

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LIQUOR STORES - Nothing to report.

OTHER RETAIL - Nothing to report.

IV. SSM KEY ACCOUNT CONTACTS

Klee Wholesale - Accompanied SSS Jim Lind and AM Glenda Greany in luncheon meeting with Marge and Paul Klee. Presentation included ytd business review and introductory presentation on behalf of Cambridge Full Flavor. Discussed past problem with return goods. Brand was accepted and problem should now be solved. Also discussed alternatives for handling excess Players Lts. 25's inventory. Recommendation forthcoming.

Keilson Dayton - Met with Tom Wellinghoff to discuss Cambridge Full Flavor introduction, terms of price increase, Ohio tax increase and floor tax. Also, reviewed lease and other details for construction of POS warehouse facility on Keilson property.

Bosart Co. - Spoke with buyer, Jerry Karl, to finalize acceptance of 2 for 1 promotional product for EMRO-Eastern.

Laurel Grocery Co. - Spoke with buyer to finalize Cambridge Full Flavor purchase. Order placed.

Kroger G.O. - Spoke with buyer, Rich Shea, at his request, to discuss terms of P.M. price increase and Kroger's dissatisfaction with same. Explained to Rich that as a sales manager I have nothing to do with product pricing but would communicate his feelings.

V. MERCHANDISING PROGRAMS

Carton Programs

PLAN A

Heavy emphasis on Row Gap continues as both supervisors are implementing programs within their operations to capitalize on the numerous opportunities in this area. During June 44 total accounts were upgraded - 8 of which were previously below 51 rows (191 stores remain in this category).

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COMPACT/IMPACT - Nothing to report.

PLAN AV

Contract revisions are helping gain additional rows for Cambridge as AV's or incorporating supplemental units into Plan A.

PLAN A-1

Marlboro Sports Bag A-1 - commitments have been gained from EMRO-Eastern, Kroger Cincinnati and Columbus divisions. Down the street (no contract) placement will insure 100% usage. With chain commitments to date 850 unit Section allocation will find us in short supply for independent placement.

PACK/COUNTER PROMOTIONS

PLAN B/M

Penetration maintained a 38% with no significant changes.

PLAN BV/BG

84 new BG's, 44 BV's during June bring total accounts to 2,456. Total will increase even more in July as SR's now have a vehicle for reporting non paid placements.

PLAN R - Nothing to report.

VENDING PROGRAMS

New Maxi Credit vendors are Kirk Music and White Loudon

Datavend - Presentations will be made to Stern Vending and Pioneer Vending during July.

INCENTIVE PROMOTIONS

DM's report 100% usage of Marlboro Lighter display as expected.

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PM FIXTURES

PACKAGE - Release of 6' Maxi units will assist us in recovering lost placements.

CARTON - 13 new placement during June cycle bring Section total to 419. RM's currently have work orders for 47 CMSII placements. System 2000 fixtures have arrived for velocity supermarkets (5 stores) and will be installed in early August.

RETURNED GOODS

- . All Ohio accounts were contacted and unsalables returned prior to floor tax inventory of 7-15-87.
- . Customer Service - Richmond has advised Richardson Wholesale (Morehead, Ky.) and Johnson Wholesale (Hazard, Ky.) the returned goods will be handled by Roadway Trucking. Roadway, in turn, has advised these wholesalers that they must make arrangements to deliver unsaleables to their Cincinnati terminal 4 hours away.

VI. SECTION ACTIVITIES

PRODUCTIVITY

P.P.P. objectives for the 6th sales cycle were met with an excellent sell in and pre-booking effort for Cambridge Full Flavor. Further positioning of Row Gap occurred as we met in both management and retail meetings to discuss Plan A revisions. The use of outside temporary manpower served us very well as a means for couponing Cambridge at key distributors. High ICR error rate was identified with 1st edit report and as key areas of 50% of these errors were found in the reporting of out of stocks and value centers which have since been corrected.

57 territories were cycled 90% or better and call rate averaged 10.6 daily. From the 2nd week in June thru the 3rd week of the July cycle 147,671 on carton coupons have been placed.

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POS

Permanent penetration decreased slightly to 86.4% as SR's placed 844 additional items.

CONSUMER WORK

C.I.P. usage averaged near 9.4 per day during selling and selling related time as this area has been addressed and is showing continued improvement.

SAMPLING PROGRAMS

Though sampler in Columbus worked one week and resigned, a replacement was found immediately. All are in place and usage is on target with a generally positive response from consumers. 8 samplers have been allocated for Virginia Slims Program - at least 3 will be placed in areas not previously covered.

VII. SALES SERVICES

SYSTEMS - Nothing to report.

FLEET - Nothing to report.

OFFICE ADMINISTRATION

As requested, a complete audit of local pay, chain, and vending payment systems, salesmen and office expenses and merchandising program compliance was conducted during the week of 7-20-87.

VIII. SALES DEVELOPMENT

Previously discussed.

IX. MEDIA DEVELOPMENT

Nothing to report.

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X. ASSOCIATIONS/CONVENTIONS/MEETINGS

Nothing to report.

XI. SSM MISCELLANEOUS COMMENTS

Previously discussed.

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I. MARKETING CONDITIONS

NEW BRANDS

Cambridge Lights

. Sales continue to respond to on-carton couponing. Coupon availability in this Section has encountered several snags which have had a negative impact on sales potential.

Cambridge Full Flavor

. Response to introduction and movement good to date. "2 for 1" product basically depleted and noting repeat sales.

. Distribution gaps remaining are primarily major chains which refused Cambridge Lights to date:

- | | |
|-------------------------|-------------------------|
| - Food Lion | FF/Light 100's packings |
| - Winn-Dixie, Charlotte | All packings |
| - Winn-Dixie, Raleigh | All packings |

All have had Cambridge/Value Center presentations made and are pending.

Players Lights

. Product being couponed but only marginal impact on sales. Distribution continues to slide. Product starting to become major factor for returned goods.

PM Sales

. Marlboro and Value products continue to account for sales volume increase. +5.8% as of 6/30/87. July buy-down, after load for price increase, will lower YTD, but will remain a +3-4%.

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Industry Sales

. Price Value products continue to capture a larger market segment. As of 5/31/87:

	<u>'87</u>	<u>'86</u>
Current month	13.91	
3 month	13.10	11.99
12 month	12.55	11.31
YTD	12.97	12.01

After five months of 1987, market volume is down 3%, with price value up 4.8%, and standard price down -4%.

II. MAJOR COMPETITIVE DEVELOPMENTSAmerican Tobacco

. Alabama, Florida, Georgia, Maryland, N.C., Virginia, and parts of Kentucky, Tennessee and W. Virginia, beginning 8/10/87, are introducing Pall Mall Red Filter 85/100. All introduction product will be shipped with \$2.00 coupon attached. Initial stage of presentation.

. Malibu with \$3.00 coupon showing only marginal movement.

Brown & Williamson

. Reps from Eastern, N.C., currently working special coverage in Baltimore, Maryland, for Capri introduction.

. Capri appearing at wholesale level in N.C. - only retail supply noted to date in Circle K. Reported to begin retail 8/1.

. Falcon has gained good retail distribution, but is showing only marginal movement.

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Liggett & Meyers

. L & M Light 30-pack being presented at wholesale with marginal success. Thomas & Howard, Newton, N.C., the only major account to accept to date. Primary objection by N.C. wholesaler is labor cost to affix water decal for state tax.

. Effective 7/87, working revised Plan A contract which shows increased payment on prior row requirements. No impact known to date.

P. Lorillard

. All current activity directed to package revision for True.

R. J. Reynolds

. Heavy coupon activity on major brand families. \$2.00 on Winston, Salem, Camel and Vantage via on-carton. Direct mail, media delivered, and in-store coupon personnel. While some impact noted on PM sales, does not appear major.

. Have noted 50¢ on-carton coupons on Doral. According to N.C. wholesaler, RJR advised when \$1.00 coupon supply depleted, will convert to 50¢ coupon.

. RJR reported paying up to \$300.00 for Overhead where PM unit currently exists. We are losing units, but existing account rapport is helping to minimize temporarily. According to information received by some DM's, it appears the bonus may be, in part at least, a misrepresentation of existing RJR merchandising payments. Follow-up ongoing and will upgrade as available.

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III. TRADE CLASSES

Wholesale Distributors

- . Stokes Dist. Co., Roanoke Rapids, N.C. - Has been purchased by Southco, Goldsboro, N.C., and combined with the Goldsboro facility. The Roanoke Rapids facility is closed and for sale.
- . Morehead Co., Asheville, N.C. - Lost Community Cash to MDI, which represents about \$1 million in business annually.

Supermarkets

- . Winn-Dixie, Charlotte, N.C. - Earl Angel has been appointed Director of Merchandising, replacing Dennis McCoy who went to Retail Operations Manager in Greenville, S.C., last month.
- . A & P, Charlotte, N.C. - Wayne Schumaker has been appointed buyer to replace Nat Holcolm, retiring.
- . Ingles, Black Mountain, N.C. - Buyer, Phil Taylor, conveyed upper-management concern over cigarette pilferage and indicated a decision for NSS merchandise could be forthcoming.

Convenience

- . Nothing to report.

Mass Merchandiser

- . Brendle's, Elkin, N.C. - Has ceased direct purchases and is now being supplied by Eli Witt. In-store stock availability is showing a marked improvement.

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IV. SSM KEY ACCOUNT CONTACTS

06/26/87	Food Lion Salisbury, N.C.	Dan Boone Director of Finance
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Confirmed Dan's participation in the upcoming Paine Weber Seniors Pro Am and discussed the Food Lion expansion into the Florida market.

07/07/87	Food Lion Salisbury, N.C.	Marie Robinson Sp Events Coordinator
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Discussed PM involvement in the September Southern Women's Show in conjunction with Food Lion.

07/07/87	Food Lion Salisbury, N.C.	Tad Chamberlin Buyer
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Presented Cambridge Full Flavor, Marlboro Sports Bag A-1 with Senior Accounts Manager, and discussed PV merchandising. While Tad stated nothing was official, it appeared they were going to accept our fixture.

V. MERCHANDISING PROGRAMSCARTON MERCHANDISING PROGRAMSPlan "A" & "AM"

. With receipt of new contracts, re-signing is under way, with target completion date of 10/30/87. Three chains with 94 stores have been signed to Plan AM to date.

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Plan "A-1"

. Marlboro A-1 Sports Bag has been received and implementation is under way. With bulk of recent promotional items, storage space is becoming critical and some consideration should be given to split shipments.

Plan "AG/AV"

. Byrd's, Burlington, N.C. - AV fixtures have been implemented in all 38 stores and supported by 80-carton forceout.

. Food Lion, Salisbury, N.C. - Has approved test stores for two AV units. Installation will be complete by 7/30/87.

. A & P, Charlotte, N.C. - Has approved placement and POG for AV merchandiser for Cambridge/Royale. Implementation is pending final correspondence from corporate merchandising manager. Phone approval obtained.

. Harris-Teeter, Charlotte, N.C. - Has requested a dual AV unit be delivered to their headquarters for review. Unit delivered 7/27.

PACKAGE MERCHANDISINGPlan "B/M"

. Quick Stop, Fayetteville, N.C. - Has agreed to place M-3's in 35 Deli stores where no displays existed previously.

. Due to increased display sizes and our diversified merchandising programs, brand rotation for B/M units should be curtailed to every other month if at all possible.

Plan "BV"

. Pantry, Sanford, N.C., - Is considering BV unit for all stores. Final decision expected by 7/30/87.

. Penetration at 29.5% of workload accounts and up 23.5% YTD. Availability of units should show continued growth in penetration.

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PM FIXTURESCarton

. Continues to show marginal growth, up 9 units this reporting period.

. Series 2000 test unit still on location in Winn-Dixie, Charlotte store.

. Implementation is under way for Series 2000 in Farm Fresh Store in Durham.

Package

. Net loss of seven OPM units this reporting period due to RJR bonus payments. New LP series is helping to offset these losses.

. Kroger custom package fixtures have been received. Units are being assembled and first two stores should be set by 7/30/87.

VI. SECTION ACTIVITIESRetail Activities and Accomplishments

. Account coverage 45 of 59 assignments at 90%+ with six assignments STD/new hires.

. Daily call rate at 10.9 is excellent considering the following activities.

- Standard PPP
- Cambridge FF Pre-booking
- Cambridge Menthol Heavy-Up
- Completion of Players "2 for 1" Promotion
- Marlboro Lighter Displays

. Resort Program completed on both Carolina Beach locations, plus special promotions conducted at Farmer's Day in China Grove and Beach Music Festival in Wilson.

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. Overall consumer activity and CIP utilization continue to show development. 7.1 CIP's utilized per rep day worked this period.

Headquarter/Management/Activities

- . Cambridge FF sell-in completed to management accounts.
- . Marlboro shopping baskets sold to Winn-Dixie, Food Lion, A & P, Wilson's, Byrd's, Hill's, Food King, and Harris, previously, have been implemented.
- . M-3 display expanded to 35 additional Quick Stop locations.
- . AM sold to three chain groups for 94 stores.
- . Marlboro "Sports Gear" A-1 sold in.
- . AV test approved for Food Lion.
- . Harris-Teeter reviewing AV units and low-profile package fixtures.
- . Implementation started on Kroger package racks.
- . A & P approved AV units for Cambridge/Royale.

Objectives this Period

- . Follow-up on Cambridge family distribution gaps.
- . Expansion of PM Value Center placements.
- . Sell-in on V.S. Ultra/B & H Lights Box.
- . Re-signing of "A" contracts to expand PM rows.
- . Expansion of PM fixture placements.

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VII. SALES SERVICES

- . PM spinners previously showing on the Retail Account Summary were deleted with the 6th Cycle run.
- . Continued lack of Cambridge labels has created severe problems in maintaining home/inventory for brand family. Not available since 12/86.
- . Sub-market 3A2, which was requested to be deleted, continues to invalidate CustomerTrak information for retail outlets located in the sub-market.
- . CIP coupon usage is showing variation on WAR Report from ICR input. ICR's were recalled for one territory and on recount WAR total usage was only 83.5% of the total reported by individual ICR.
- . A number of managers utilize P.O. boxes for a business address. We are currently sending overnight/UPS to the addresses which the carrier will not deliver. This type shipment should be directed to a physical residence address only to avoid delay in receipt of materials.
- . Retail merchandisers are picking up ICR error for Page 1 for not marking OOS information. System should default "No OOS" for RM territory number to delete problem.

VIII. SALES DEVELOPMENT

- . Nothing to report.

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IX. MEDIA DEVELOPMENT

. Marlboro cutout pole sign located on Hwy. 105 in Boone, N.C., should be relocated. Due to sign height and background, it is lost in the clutter. An excellent location, if available, would be Hwy. 321 between Boone and the Blue Ridge Parkway.

. Cambridge Full Flavor outdoor boards with white pack on white background lose the pack image and a major part of visibility as a result. Without the pack being identified visually, you must read the board to realize what is supposed to be there.

X. ASSOCIATIONS/CONVENTIONS/MEETINGS

- . 07/13/87 - 07/16/87 - Attended MPA II Seminar in Richmond, Virginia.
- . 07/20/87 - Attended banquet for Duke Children's Hospital to meet Rufus Edminsten, N.C. political figure.
- . 07/21/87 - Conducted Management Meeting for V. Slims Ultra and B & H Lights Box.
- . 07/23/87 - Meeting with Wanda Bolten, NYO, to finalize plans for PM participation in Southern Women's Show.
- . 07/24/87 - SSM Meeting in Atlanta, Georgia.

XI. SSM MISCELLANEOUS COMMENTS

. Retail sales force continues to show frustration as a result of trying to implement multiple promotions with late shipments and limited materials. Field managers are doing a good job of maintaining productivity and pulling the pieces together, but some rough edges are showing.

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